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Testimony of the American Council of Life Insurers
before the Insurance & Real Estate Committee
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Senate Bill 185 - An Act Concerning Changes to the Standard Valuation and Nonforfeiture Laws and the Use of the National Association of Insurance Commissioners' Valuation Manual

Senator Crisco, Representative Megna and members of the Insurance and Real Estate Committee, the American Council of Life Insurers ("ACLI") appreciates the opportunity to offer the following comments in support of **Senate Bill 185 - An Act Concerning Changes to the Standard Valuation and Nonforfeiture Laws and the Use of the National Association of Insurance Commissioners' Valuation Manual**. This legislation is the first in a two-step process that will allow Connecticut to implement a new "principle-based reserves" (PBR) method for calculating life insurance policy reserves.

ACLI appreciates the Insurance Department's leadership in promoting the revamping of the Standard Valuation and Nonforfeiture statutes. Today, life insurance reserves are calculated based on fixed formulas and assumptions prescribed by state insurance laws and regulations. Assumptions are locked in on the date the policy is issued and not based on the insurance company's own experience. SB 185 is based on model legislation that would allow life insurers to calculate their policy reserves (capital held in reserve to pay future life insurance claims) using the new method.

For some products, these fixed formulas can lead to excessive conservatism in reserve calculations. When companies have to hold higher reserves than necessary to meet their obligations, the result is higher costs for consumers. For some policies, this requirement to lock assumptions at issue can lead to inadequate flexibility in the reserves.

As new, more complex products are introduced to satisfy the needs of consumers, many insurance regulators and life insurance companies believe that reserve requirements need to evolve in order to keep pace with new product designs and the risks associated with the new designs.

PBR is consistent with solvency modernization efforts worldwide. The NAIC worked with state insurance regulators, the life insurance industry and the American Academy of Actuaries over the past decade to develop PBR for life insurers' use. This method of calculating policy reserves is already used by the property and casualty industry and the health insurance industry, and in international insurance markets.

There are two language changes that we are seeking in this proposal:

- 1) Line 95: After "actuaries" add "prior to the operative date of the Valuation Manual"
(Would read: (b) (1) The provisions of this subsection shall apply, unless otherwise provided in title 38a, to opinions submitted by and supporting memoranda prepared and provided by

qualified actuaries prior to the operative date of the Valuation Manual for policies and contracts issued prior to the operative date of the Valuation Manual, as set forth in section 2 of this act.)

2) Line 301: Delete "for policies and contracts issued"

Line 302: After "Manual" add "for all policies and contracts inforce"

(New language would read: (c) (1) The provisions of this subsection shall apply to opinions submitted by and supporting memoranda prepared and provided by appointed actuaries [for policies and contracts issued] on or after the operative date of the Valuation Manual for all policies and contracts inforce, as set forth in section 2 of this act. The provisions of this subsection shall not apply to a society subject to section 38a-614, unless such society elects to use the standards pursuant to subdivision (9) of subsection (a) of section 38a-614.)

Thank you for your consideration of our position in support of Senate Bill 185 - An Act Concerning Changes to the Standard Valuation and Nonforfeiture Laws and the Use of the National Association of Insurance Commissioners' Valuation Manual. Please contact John Larkin at (860) 508-9924 or Kate Kiernan at (202) 624-2463 with any questions.

The American Council of Life Insurers (ACLI) is a national trade association with approximately 300 member companies operating in the United States and abroad. 228 member companies serve Connecticut consumers. ACLI advocates in federal, state, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers' products for financial and retirement security. ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing more than 90 percent of industry assets and premiums in Connecticut. Learn more at www.acli.com.